

FENNVILLE PUBLIC SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2006

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Fennville Public Schools
Fennville, Michigan

August 1, 2006

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fennville Public Schools, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fennville Public Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fennville Public Schools as of June 30, 2006 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Education
Fennville Public Schools
Fennville, Michigan

August 1, 2006

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2006, on our consideration of Fennville Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xvi and page 26, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fennville Public Schools' basic financial statements. The additional information on pages 28 to 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Mamer, Costenisan & Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants

**FENNVILLE PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION & ANALYSIS
Fiscal Year Ending June 30, 2006**

Fennville Public Schools, a K-12 school district located in Allegan County, Michigan, is in its third year of implementation for the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements.

FINANCIAL HIGHLIGHTS

Below is a table showing the fund balances for the past six years.

<u>DATE</u>	<u>GENERAL FUND BALANCE</u>	<u>DIFFERENCE</u>
June 30, 2001	\$ 847,375	\$ (677,552)
June 30, 2002	815,213	(32,162)
June 30, 2003	906,648	91,435
June 30, 2004	1,149,200	242,552
June 30, 2005	1,479,503	303,303
June 30, 2006	1,254,283	(225,220)

In 2005-06 the total general fund revenues exceeded \$12 million dollars with expenditures approximately \$12.4 million dollars. In 2004-05 the total revenues exceeded \$11.5 million dollars with expenditures approximately \$11.2 million dollars. In the past two years, revenues have increased over \$.5 million dollars while expenditures increased by \$1.2 million.

The District continues to participate in short-term borrowing and borrowed \$2 million dollars during the year that was repaid in August 2006.

On June 14, 2004, the voters approved a \$25,760,000 bond for building a new elementary building, major renovations to the middle school, site renovations to the high school and a new community athletic center. The competitive bond sale on July 28, 2004 netted over \$3 million in savings over the life of the bonds. Therefore, the 5.81 mills approved by the Fennville voters were reduced to a 5.46 tax levy for 2004 as well as 2005. The debt levy was reduced to 5.20 mills for 2006.

In 2005-06, the school lunch fund showed continued improvement with revenues of \$615,499 and expenditures of \$564,469 adding \$51,030 to the fund balance. This is the fourth time in over nine years that the school lunch fund showed a profit and was not subsidized by the general fund. At the beginning of the year the fund balance was \$168,206 and at the end of the fiscal year it increased to \$219,236. Free and reduced lunch counts were increased slightly and the uncollected student accounts were much lower than in previous years.

The athletic fund was subsidized by the general fund by \$131,861 which is an increase from the previous year's amount of \$113,715.

Several District improvements during fiscal year 2005-06 included 11 additional full time staff positions, reading literacy programs, after school tutoring, increase in college tuition classes and Michigan Virtual High School courses, ESL programs, additional staff at the Allegan County Jail program, credit recovery program, middle school vocal music and health, additional student sports, and a full time middle school counselor.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District’s *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District’s operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others.

Figure A-1
Organization of Fennville Public Schools’
Annual Financial Report

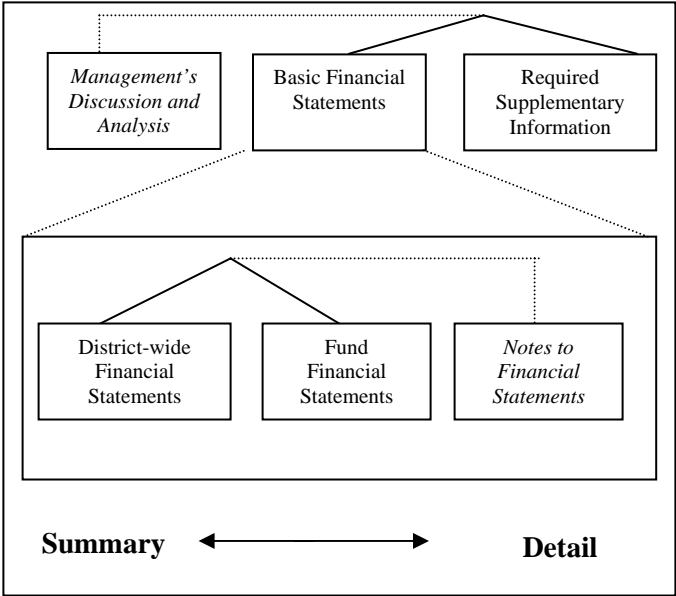


Figure A-2 Major Features of District-Wide and Fund Financial Statements			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, FPS's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT WIDE FINANCIAL STATEMENTS:

All of the District's assets and liabilities are reported in the district-wide financial statements and are on a full accrual basis that are similar to those used by private-sector companies. For example, capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the district-wide financial statements. The difference between the District's assets and liabilities (net assets) are one way to measure the District's financial position. However, you need to consider other non-financial factors such as changes in the District's property tax base and the condition and age of the school buildings and other facilities.

The current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. Most of the District's basic services are included here, such as regular and special education, transportation and administration. These activities are financed through the state foundation grant, property taxes and various federal and state programs.

The District's combined net assets at the beginning of the fiscal year were \$4,059,538 and on June 30, 2006 they were \$4,783,072 which represents an increase of \$723,534 as recorded in the Statement of Activities.

FUND FINANCIAL STATEMENTS

The fund financial statements are reported on a modified accrual basis and consist of governmental funds and fiduciary funds. Governmental funds include most of the District's basic services which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending on future District programs.

Fiduciary funds are for assets that belong to others, such as the scholarship fund and the student activities fund where the District is the trustee or fiduciary. The District cannot use these assets to finance its operations but it is responsible to ensure that these funds are used for their intended purposes. Only measurable and currently available funds are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources. Some of these funds are established by State law and by bond covenants while others can be established for the District to control and manage money for a particular purpose such as school lunch and athletics.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets – In 2005-06, the District's *combined* net assets were higher on June 30, 2006 than they were the year before – increasing by \$723,534 as compared to an increase of \$955,705 for 2004-05.

Table A-3		
Fennville Public School's Net Assets		
	2006	2005
Current and other assets	\$ 19,305,828	\$ 29,662,461
Noncurrent assets	17,338,368	4,450,823
Total assets	36,644,196	34,113,284
Long-term debt outstanding	25,405,698	25,570,928
Other liabilities	6,455,426	4,482,818
Total liabilities	31,861,124	30,053,746
Net assets:		
Invested in capital assets, net of related debt	2,833,405	1,712,569
Restricted	526,066	450,322
Unrestricted	1,423,601	1,896,647
Total net assets	\$ 4,783,072	\$ 4,059,538

Table A-4		
Changes in Fennville Public Schools' Net Assets		
	2006	2005
Revenues:		
Program revenues:		
Charges for services	\$ 235,921	\$ 307,530
Federal and state categorical grants	1,918,818	1,817,531
General revenues:		
Property taxes	3,203,665	2,933,948
Investment earnings	768,648	416,179
State aid – unrestricted	8,567,117	8,219,972
Allegan ISD	208,162	209,589
Gain on sale and capital assets	5,446	63,600
Other	78,774	22,706
Total revenues	<u>14,986,551</u>	<u>13,991,055</u>
Expenses:		
Instruction	7,405,922	6,747,284
Support services	4,694,790	4,332,084
Community services	15,945	8,832
Food services	545,380	490,064
Athletics	190,269	173,596
Interest on long-term debt	1,213,687	1,094,319
Unallocated depreciation	197,024	189,171
Total expenses	<u>14,263,017</u>	<u>13,035,350</u>
Change in net assets	<u>\$ 723,534</u>	<u>\$ 955,705</u>

STATE OF MICHIGAN UNRESTRICTED AID (State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- The Michigan State Aid Act per student foundation allowance which was established under Proposal A has increased from \$4,352 per student in 1995 to \$6,700 per student in 2004-2005. The foundation grant for 2005-06 was increased by \$175 per student to \$6,875.
- Student Enrollment – The blended count is 75 percent of current year's fall count and 25 percent of prior year's February count for 2005.
- The District's non-homestead levy for 2005-06 was 18.0000 mills which the voters approved in June 2005.

Student Enrollment

In 2006, the student blended count was 1,453 and in 2005 it was 1,440. This was a gain of 13 students which increased the financial position of the District with an increase in revenues of \$89,375. The foundation grant monies result in approximately 60 percent of the total District's general fund revenue budget.

The following table demonstrates the student enrollment for the past five years:

	<u>September</u>	<u>February</u>
2000	1,637	1,566
2001	1,627	1,585
2002	1,526	1,497
2003	1,462	1,465
2004	1,454	1,418
2005	1,445	1,426
2006	1,455 *	1,413
* Estimated		

GOVERNMENTAL FUNDS

Results of Operations:

For the fiscal years ended June 30, 2006 and 2005, the district-wide results of operations were:

	<u>2006</u>	<u>2005</u>
REVENUES:		
Local sources:		
Property taxes	\$ 3,204,132	\$ 2,934,626
Investment earnings	768,648	416,179
Food sales and athletic admissions	211,428	197,051
Other	103,267	133,185
Total local sources	4,287,475	3,681,041
State sources	9,198,102	8,820,903
Federal sources	1,287,833	1,216,600
Intermediate sources	208,162	209,589
TOTAL REVENUES	\$ 14,981,572	\$ 13,928,133
EXPENDITURES:		
Current:		
Instruction	\$ 7,391,960	\$ 6,756,882
Supporting services	4,995,542	4,449,643
Food service activities	564,469	504,494
Athletic activities	190,269	173,596
Community service activities	15,945	8,832
Debt service:		
Principal	301,304	160,000
Interest expense	1,220,372	896,648
Other	225	111,652
Capital outlay	12,042,620	2,000,634
TOTAL EXPENDITURES	\$ 26,722,706	\$ 15,062,381

The following summarizes the revenues and expenses by comparing fiscal year 2006 to 2005 as shown in the previous Results of Operations.

Revenues:

- Property taxes were increased due to increased taxable values and assessments.
- Interest earnings were increased due to higher interest rates.
- State sources increased overall but were overstated in the budget.
- Federal sources showed an increase of \$28,844 for federal programs.
- Intermediate sources were slightly lower than the previous year.

Expenses:

- Salaries and benefits increased as 11 additional staff positions were added.
- Supporting services also increased due to a replacement for the middle school counselor.
- Food service continues to show a profit.
- Athletic service expenses were increased due to additional programs.
- Transportation expenses were higher due to increased field trips and athletic events.

NON-HOMESTEAD PROPERTY TAXES LEVIED FOR GENERAL OPERATIONS

The Fennville Public School District voters approved the 18 mill renewal in June 2005 for one year and again in June 2006. The State of Michigan allows each school district to levy 18 mills on non-homestead property and the foundation grant is calculated after the 18 mills. The approval of this renewal resulted in a little over \$1.7 million in revenue for the District in fiscal year 2005-06.

Following is a table showing the past six years of property taxes collected on non-homestead property.

Non-Homestead Tax		
Fiscal year	Levy	Mills
2005 - 2006	\$ 1,739,017	18.0000
2004 - 2005	1,564,900	17.5338
2003 - 2004	1,516,817	18.0000
2002 - 2003	1,407,377	18.0000
2001 - 2002	1,175,266	
2000 - 2001	1,143,337	

The 18 mill renewal was approved by the Fennville voters again in 2006.

GENERAL FUND AND BUDGET HIGHLIGHTS

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. The 2006-07 budget was approved on June 26, 2006.

The 2005-06 budget was approved on June 27, 2005 and amended twice during the fiscal year – once in December 2005 and again in June 2006.

December Revision: The first revision to the 2005-06 budget was in December of 2005. The final student count figures came in higher than anticipated in the original budget, the student foundation grant increased to \$6,875 per student. Even with the increase in the foundation grant, the new loss per student was \$168 after the increases for medical insurance and retirement.

June Revision: Changes in the June revision resulted in several line items being adjusted within the individual budgets as well as some significant salary adjustments. The June revision showed an increase in revenues of \$105,857 while expenditures were increased by \$7,100 from the January revisions.

In summary, the adjusted 2005-06 budget showed \$12,296,226 in revenues and \$12,356,230 in expenditures while the actual audited figures were \$12,053,742 in revenues and \$12,403,447 in general fund expenditures.

Actual vs. June Revision

The actual audited figures for the 2005-06 budget show a much higher deficit than what was budgeted for the June Revision but was much lower than the December revision. The actual results were more unfavorable than what was anticipated with total general fund revenues of \$12,053,742 compared to expenses of \$12,403,447 leaving a deficiency of revenues over expenditures of \$225,220 after other financing sources of \$124,485. The fund balance has increased for the past three years and this is the first time it shows a deficit.

Following are several reasons why the audited figures are different than the anticipated June 2006 revision amounts approved by the Board of Education.

- Salaries and benefits were much higher than anticipated with several illness and added staff positions.
- Pupil supporting services was higher than budgeted due to leaves of absences.
- The food service continues to increase their fund equity.
- The athletic department had an increase in their expenditures which resulted in more money being transferred from the general fund for additional programs.
- The State Aid revenue was overstated due to a combined figure.
- Pupil transportation was higher than budgeted due to increased field trips and athletic events.

All of the above resulted in a decrease to the fund balance of (\$225,220) which is lower than the December revisions and higher than the June revisions. The original 2005-06 Budget approved by the Board in June was a deficit budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2006, the District had invested \$21.1 million in a broad range of capital assets.

Table A-5 Fennville Public Schools' Capital Assets				
	2006			2005
	Cost	Accumulated depreciation	Net book value	Net book value
Land and construction in process	\$ 13,946,136	\$ -	\$ 13,946,136	\$ 1,988,834
Buildings & additions	5,031,824	3,633,636	1,398,188	1,484,913
Transportation equipment	1,326,918	758,198	568,720	335,075
Computer & office equipment	478,866	309,990	168,876	197,764
Other	413,233	323,498	89,735	104,784
Total	<u>\$ 21,196,977</u>	<u>\$ 5,025,322</u>	<u>\$ 16,171,655</u>	<u>\$ 4,111,370</u>

LONG-TERM DEBT

The 2004 construction and remodeling bond was approved by the voters on June 14, 2004 in the amount of \$25,760,000. The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

2004 serial bonds due in annual installments of \$305,000 to \$1,565,000 through May 1, 2034 with interest from 3.0% to 5.0%	\$ 25,365,000	\$ 25,600,000
1998 limited obligation bonds (Durant bonds) due in annual installments of \$14,678 to \$66,304 through May 15, 2013, with interest at 4.76%. Certain state aid payments have been pledged as security.	<u>118,666</u>	<u>184,970</u>
Total bonded debt	25,483,666	25,784,970
Bus loan - October 13, 2005 5 new buses. Loan due in annual installments of \$46,240 to \$54,281 through October 13, 2010 with interest at 4.1%.	250,900	
Capital leases - June 2002 5 new buses. At the end of the lease agreement, the District will own the buses. One installment of \$56,950 is due on July 1, 2007, with an interest rate of 4.69%.	<u>56,950</u>	<u>111,349</u>
Total bonded debt and other long term obligations	25,791,516	25,896,319
Voluntary severance plan		50,830
Compensated absences	<u>56,395</u>	<u>46,295</u>
Total general long-term debt	<u><u>\$ 25,847,911</u></u>	<u><u>\$ 25,993,444</u></u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

There are several factors that could significantly affect the financial health of the District in the future.

- The foundation allowance from the State of Michigan will increase by \$210 per student for 2006-07. There will also be an equity payment of \$23 per student. The final student enrollment figures for September 27, 2006 are estimated to be around 1,460 students.
- The District has not received final allocation letters for amount of funds awarded on many of the federal and state programs at the time of this writing. However, the Title I program has been increased by \$62,000.
- The teacher's contract, maintenance and custodian, and the transportation contracts have all been settled and are reflected in the 2006-07 Budget. The District is a plaintiff along with other school districts in a lawsuit against the State, seeking to rectify inequities in the State's formula for appropriating special education aid to the districts.
- With the opening of the new elementary, increased utilities has been estimated and will be monitored closely and revised if needed.
- The costs for fuel and gas have also been estimated and will be revised if prices are higher than expected.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the revenues it receives. If you have any questions about this report or need any additional information, please contact Delores McMullen, CFO, Director of Finance/Business, Business Services Office, Fennville Public Schools, 717 East Main Street, Fennville, Michigan 49408, phone 269-561-7331.

**FENNVILLE PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2006**

	<u>Governmental activities</u>
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 705,922
Investments	2,625,062
Receivables:	
Accounts receivable	32,305
Interest receivable	157,298
Due from other governmental units	1,699,942
Taxes receivable	525
Inventories	42,831
Restricted cash and cash equivalents - capital projects	364,159
Restricted investments - capital projects	<u>13,677,784</u>
TOTAL CURRENT ASSETS	<u>19,305,828</u>
NONCURRENT ASSETS:	
Restricted investments - capital projects and permanent fund	838,932
Unamortized bond discount, net of amortization	223,473
Issuance cost for bonds, net of amortization	104,308
Land and construction in process	13,946,136
Other capital assets, net of accumulated depreciation	<u>2,225,519</u>
TOTAL NONCURRENT ASSETS	<u>17,338,368</u>
TOTAL ASSETS	<u><u>\$ 36,644,196</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 1,901,783
Retainage payable	1,009,664
Note payable	2,000,000
Accrued salaries and related items	814,791
Accrued interest	266,326
Deferred revenue	20,649
Current portion of long-term debt	422,868
Current portion of compensated absences	<u>19,345</u>
TOTAL CURRENT LIABILITIES	<u>6,455,426</u>
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term debt	25,368,648
Noncurrent portion of compensated absences	<u>37,050</u>
TOTAL NONCURRENT LIABILITIES	<u>25,405,698</u>
TOTAL LIABILITIES	<u>31,861,124</u>
NET ASSETS:	
Invested in capital assets net of related debt	2,833,405
Restricted for debt service	476,066
Restricted permanent fund	50,000
Unrestricted	<u>1,423,601</u>
TOTAL NET ASSETS	<u>4,783,072</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 36,644,196</u></u>

See notes to financial statements.

**FENNVILLE PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 7,405,922	\$	\$ 1,118,891	\$ (6,287,031)
Support services	4,694,790		319,401	(4,375,389)
Community services	15,945	24,493		8,548
Food service	545,380	155,836	450,885	61,341
Athletics	190,269	55,592		(134,677)
Interest on long-term debt	1,213,687		29,641	(1,184,046)
Unallocated depreciation	197,024			(197,024)
Total governmental activities	<u>\$ 14,263,017</u>	<u>\$ 235,921</u>	<u>\$ 1,918,818</u>	<u>(12,108,278)</u>
General revenues:				
Property taxes, levied for general purposes				1,737,503
Property taxes, levied for debt service				1,466,162
Investment earnings				768,648
State sources				8,567,117
Allegan ISD allocation				208,162
Gain on sale of capital assets				5,446
Other				78,774
Total general revenues				<u>12,831,812</u>
CHANGE IN NET ASSETS				723,534
NET ASSETS, beginning of year				<u>4,059,538</u>
NET ASSETS, end of year				<u>\$ 4,783,072</u>

See notes to financial statements.

FENNVILLE PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General fund	2005 Debt service fund	Capital projects fund	Other nonmajor governmental funds	Total governmental funds
ASSETS					
ASSETS:					
Cash and cash equivalents	\$ 544,197	\$ 11,488	\$	\$ 150,237	\$ 705,922
Investments	1,951,051	668,827		5,184	2,625,062
Receivables:					
Accounts receivable	28,506			4,324	32,830
Interest receivable		3,677	153,621		157,298
Due from other governmental units	1,695,749			4,193	1,699,942
Due from other funds				65,388	65,388
Inventories	39,805			3,026	42,831
Restricted cash and cash equivalents			364,159		364,159
Restricted investments			14,466,716	50,000	14,516,716
TOTAL ASSETS	\$ 4,259,308	\$ 683,992	\$ 14,984,496	\$ 282,352	\$ 20,210,148

LIABILITIES AND FUND BALANCES

LIABILITIES:					
Accounts payable	\$ 49,057	\$	\$ 1,849,347	\$ 3,379	\$ 1,901,783
Retainage payable			1,009,664		1,009,664
Note payable	2,000,000				2,000,000
Accrued interest payable	58,400				58,400
Accrued salaries and related items	814,791				814,791
Due to other funds	65,388				65,388
Deferred revenue	17,389			3,785	21,174
TOTAL LIABILITIES	3,005,025		2,859,011	7,164	5,871,200

	General fund	2005 Debt service fund	Capital projects fund	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES:					
Reserved for debt service	\$	\$ 683,992	\$	\$	\$ 683,992
Reserved for inventories	39,805			3,026	42,831
Reserved for athletic contribution				50,000	50,000
Unreserved, undesignated	1,214,478		12,125,485	222,162	13,562,125
TOTAL FUND BALANCES	1,254,283	683,992	12,125,485	275,188	14,338,948
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,259,308	\$ 683,992	\$ 14,984,496	\$ 282,352	\$ 20,210,148

Total Governmental Fund Balances	\$ 14,338,948
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	
The cost of the capital assets is	\$ 21,196,977
Accumulated depreciation is	(5,025,322)
	16,171,655
Long-term liabilities are not due and payable in the current period and are not reported in the funds	
Bonds payable	(25,365,000)
Bond discount, net of amortization of \$15,252	223,473
Issuance cost for bonds, net of amortization of \$7,119	104,308
Long-term debt	(426,516)
Compensated absences	(56,395)
Accrued interest is not included as a liability in government funds, it is recorded when paid	(207,926)
Balance of taxes receivable at June 30, 2006 less allowance for doubtful accounts, expected to be collected at September 1, 2006	525
Net assets of governmental activities	\$ 4,783,072

FENNVILLE PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General fund	2005 Debt service fund	Capital projects fund	Other nonmajor governmental funds	Total governmental funds
REVENUES:					
Local sources:					
Property taxes	\$ 1,737,970	\$ 1,466,162	\$	\$	\$ 3,204,132
Investment earnings	71,808	20,895	670,587	5,358	768,648
Food sales and athletic admissions				211,428	211,428
Other	96,697			6,570	103,267
Total local sources	1,906,475	1,487,057	670,587	223,356	4,287,475
State sources	9,068,572			129,530	9,198,102
Federal sources	870,533			417,300	1,287,833
Intermediate sources	208,162				208,162
Total revenues	12,053,742	1,487,057	670,587	770,186	14,981,572
EXPENDITURES:					
Current:					
Instruction	7,391,960				7,391,960
Supporting services	4,995,542				4,995,542
Food service activities				564,469	564,469
Athletic activities				190,269	190,269
Community service activities	15,945				15,945
Debt service:					
Principal		235,000		66,304	301,304
Interest		1,190,731		29,641	1,220,372
Other		225			225
EXPENDITURES (Concluded):					
Capital outlay:					
Construction	\$	\$	\$ 11,957,303	\$	\$ 11,957,303
Other			85,317		85,317
Total expenditures	12,403,447	1,425,956	12,042,620	850,683	26,722,706
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(349,705)	61,101	(11,372,033)	(80,497)	(11,741,134)
OTHER FINANCING SOURCES (USES):					
Proceeds from long term debt	250,900				250,900
Proceeds from sale of assets	5,446				5,446
Operating transfers from other funds				131,861	131,861
Operating transfers to other funds	(131,861)				(131,861)
Total other financing sources (uses)	124,485			131,861	256,346
NET CHANGE IN FUND BALANCES	(225,220)	61,101	(11,372,033)	51,364	(11,484,788)
FUND BALANCES:					
Beginning of year	1,479,503	622,891	23,497,518	223,824	25,823,736
End of year	\$ 1,254,283	\$ 683,992	\$ 12,125,485	\$ 275,188	\$ 14,338,948

**FENNVILLE PUBLIC SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

Net change in fund balances total governmental funds	\$ (11,484,788)
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because:

Governmental funds report capital outlays as expenditures in the statement of activities.

These costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(254,354)
Capital outlay	12,314,639

Proceeds from assets sold	(5,446)
Gain on sale of capital assets	5,446

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable beginning of the year	222,569
Accrued interest payable end of the year	(207,926)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)

Repayment of principal on long-term debt	355,702
Proceeds from long term debt	(250,900)
Amortization of bond discounts	(7,958)
Amortization of bond issuance cost	(3,714)

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue beginning of the year	(992)
Deferred revenue end of the year	525

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences beginning of the year	46,295
Accrued compensated absences end of the year	(56,395)
Accrued voluntary severance plan beginning of the year	50,831

Change in net assets of governmental activities	<u><u>\$ 723,534</u></u>
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**FENNVILLE PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2006**

	<u>Agency funds</u>
ASSETS	
Cash	\$ 100,705
Investments	<u>62,261</u>
	<u><u>\$ 162,966</u></u>
LIABILITIES	
Liabilities:	
Accounts payable	\$ 11,160
Due to student groups	<u>151,806</u>
	<u><u>\$ 162,966</u></u>

FENNVILLE PUBLIC SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Fennville Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Fennville Public Schools (the "District") is governed by the Fennville Public School's Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts -invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Continued)

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenue.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *2005 debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *capital projects* fund accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements (Concluded)

The capital projects fund include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

The following is a summary of the revenue and expenditures for the capital projects bond activity since inception:

	<u>2004 Bond</u>
Revenue and other financing sources	<u>\$ 26,280,166</u>
Expenditures	<u>\$ 14,154,681</u>

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *debt service fund* - Durant accounts for the resources accumulated and payments made for principal and interest on long-term limited obligation debt as a result of the Durant settlement.

The *permanent fund* accounts for resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support athletic programs of the District. This fund accounts for \$50,000 contribution designating the investment income be used for athletics.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on pupil membership counts taken in February and September of 2005.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds which are not expended by the close of the fiscal year are recorded as deferred revenue.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2006, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	18.00
Debt service fund - Homestead and non-homestead	5.46

3. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 - 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method, which approximates the effective interest method, over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

8. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, for the general fund are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2006. The District does not consider these amendments to be significant.

NOTE 3 - DEPOSITS AND INVESTMENTS

As of June 30, 2006, the District had the following investments

Investment Type	Fair value	Weighted average maturity (years)	Standard & Poor's Rating	%
MILAF External Investment pool - CMF	\$ 137,074	0.0027	AAAm	1.1%
U.S. Agency Notes and Bonds	<u>12,831,108</u>	0.3750	AAA	<u>98.9%</u>
Total fair value	<u><u>\$ 12,968,182</u></u>			<u><u>100.0%</u></u>
Portfolio weighted average maturity		<u><u>0.3711</u></u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2006, the fair value of the District's investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$4,906,643 of the District's bank balance of \$5,406,643 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. Included in the above figures are bank money market deposits of \$2,300,168 and savings of \$1,804,500.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

Deposits - including fiduciary funds of \$162,966	\$ 5,406,643
Investments	<u>12,968,182</u>
	<u><u>\$ 18,374,825</u></u>

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)

The above amounts are reported in the financial statements as listed below. Certain interest bearing deposits have been reported as investments.

Fiduciary fund:	
Cash	\$ 100,705
Investments	62,261
District wide:	
Current assets:	
Cash	705,922
Investments	2,625,062
Restricted cash - capital projects	364,159
Restricted investments - capital projects	13,677,784
Noncurrent assets:	
Restricted investments - capital projects and permanent fund	838,932
	<u>\$ 18,374,825</u>

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

Receivables at June 30, 2006 consist of the following:

	Government wide
	<u> </u>
State aid	\$ 1,619,150
Federal revenue	69,364
Intermediate sources	11,428
	<u> </u>
	<u>\$ 1,699,942</u>

No allowance for doubtful accounts is considered necessary based on previous experience.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Assets not being depreciated:				
Land	\$ 31,105	\$	\$	\$ 31,105
Construction in progress	1,957,729	11,957,302		13,915,031
Total assets not being depreciated	1,988,834	11,957,302		13,946,136
Other capital assets:				
Buildings and additions	5,031,824			5,031,824
Computer and office equipment	445,926	32,940		478,866
Outdoor equipment	413,233			413,233
Transportation equipment	1,002,521	324,397		1,326,918
Subtotal	6,893,504	357,337		7,250,841
Accumulated depreciation:				
Buildings and additions	3,546,911	86,725		3,633,636
Computer and office equipment	248,162	61,828		309,990
Outdoor equipment	308,449	15,049		323,498
Transportation equipment	667,446	90,752		758,198
Total accumulated depreciation	4,770,968	254,354		5,025,322
Net capital assets being depreciated	2,122,536	102,983		2,225,519
Net governmental capital assets	\$ 4,111,370	\$ 12,060,285	\$	\$ 16,171,655

Depreciation for the fiscal year ended June 30, 2006 amounted to \$254,354. The District allocated depreciation to the various activities as follows:

Instruction	\$ 48,609
Support	8,721
Unallocated	197,024
	<u>\$ 254,354</u>

Unallocated depreciation represents the assets that serve multiple functions and thus it would be impractical to allocate the depreciation.

Previously purchased land is valued at \$0 as date of original purchase is unknown and any amount is considered immaterial.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - NOTE PAYABLE

At June 30, 2006, the District has outstanding a \$2,000,000 revenue note (state aid note) dated August 19, 2005. The note, which has an interest rate of 2.92%, matures August 18, 2006. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000

NOTE 7 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of long term obligations for the District for the year ended June 30, 2006:

	General obligation bonds	Limited obligation bonds	Compensated absences	Voluntary severance plan	Bus loan	Capital leases	Total
Balance July 1, 2005	\$ 25,600,000	\$ 184,970	\$ 46,295	\$ 50,830	\$	\$ 111,349	\$ 25,993,444
Additions			10,396		250,900		261,296
Deletions	(235,000)	(66,304)	(296)	(50,830)		(54,399)	(406,829)
Balance June 30, 2006	25,365,000	118,666	56,395		250,900	56,950	25,847,911
Less current portion	(305,000)	(14,678)	(19,345)		(46,240)	(56,950)	(442,213)
Total due after one year	\$ 25,060,000	\$ 103,988	\$ 37,050	\$	204,660	\$	\$ 25,405,698

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 – LONG-TERM DEBT (Continued):

Bonds payable at June 30, 2006 is comprised of the following issues:

1998 limited obligation bonds (Durant bonds) due in annual installments of \$14,678 to \$19,405 through May 15, 2013, with interest at 4.76%. Certain state aid payments have been pledged as security.	\$ 118,666
2004 serial bonds due in annual installments of \$305,000 to \$1,565,000 through May 1, 2034 with interest from 3.0% to 5.0%	<u>25,365,000</u>
Total bonded debt	25,483,666
Capital leases - June 2002 5 new buses. At the end of the lease agreement, the District will own the buses. One installment of \$56,950 is due on July 1, 2007, with an interest rate of 4.69%.	56,950
Bus loan - October 13, 2005 5 new buses. Loan due in annual installments of \$46,240 to \$54,281 through October 13, 2011 with interest at 4.1%.	<u>250,900</u>
Total bonded debt and other long term obligations	25,791,516
Compensated absences	<u>56,395</u>
Total general long-term debt	<u><u>\$ 25,847,911</u></u>

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Concluded):

The annual requirements to amortize long-term obligations outstanding exclusive of compensated absences payments as of June 30, 2006, including interest of \$21,913,231 are as follows:

Year ending June 30,	Principal	Interest	Total
2007	\$ 422,868	\$ 1,202,264	\$ 1,625,132
2008	448,512	1,187,853	1,636,365
2009	541,212	1,172,640	1,713,852
2010	574,029	1,153,199	1,727,228
2011	601,965	1,131,956	1,733,921
2012-2016	3,117,930	5,310,343	8,428,273
2017-2021	3,955,000	4,597,976	8,552,976
2022-2026	5,080,000	3,550,000	8,630,000
2027-2031	6,475,000	2,145,000	8,620,000
2032-2034	4,575,000	462,000	5,037,000
	<u>\$ 25,791,516</u>	<u>\$ 21,913,231</u>	<u>\$ 47,704,747</u>

The Durant bonds, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

Interest expense (all funds) for the year ended June 30, 2006 was approximately \$1,200,000.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2006 are as follows:

<u>Receivable fund</u>		<u>Payable fund</u>	
Food Service	<u>\$ 65,388</u>	General	<u>\$ 65,388</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded):

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2005 were 14.87% of payroll through September 30, 2005 and 16.34% effective October 1, 2005 through June 30, 2006. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2006, 2005 and 2004 were \$1,085,328, \$967,269 and \$891,885, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits, which is the responsibility of the State of Michigan.

Other Post-employment Benefits - Also within the MPSERS system, retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPSERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the MPSERS with the balance deducted from the monthly pension.

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2006 or any of the prior three years.

**FENNVILLE PUBLIC SCHOOL
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 - TRANSFERS

The general fund transferred \$131,861 to the athletic fund during the current fiscal year. The transfer to the athletic fund was to subsidize operations.

NOTE 12 - SUBSEQUENT EVENTS

The District has approved borrowing \$1,700,000 for fiscal year 2006 to replace the note payable as described in Note 6.

NOTE 13 - COMMITMENTS

The District has approximately \$12,126,000 committed to complete its \$25,760,000 bond proposal construction program.

REQUIRED SUPPLEMENTARY INFORMATION

**FENNVILLE PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2006**

	Original budget	Final budget	Actual	Variance with final budget - positive (negative)
REVENUES:				
Local sources	\$ 1,675,660	\$ 1,859,699	\$1,906,475	\$ 46,776
State sources	9,374,223	9,406,168	9,068,572	(337,596)
Federal sources	833,349	841,689	870,533	28,844
Intermediate sources	196,670	188,670	208,162	19,492
Total revenues	12,079,902	12,296,226	12,053,742	(242,484)
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	5,480,515	5,422,477	5,550,347	(127,870)
Added needs	2,040,055	1,693,189	1,729,813	(36,624)
Adult and continuing education	56,217	126,935	111,800	15,135
Total instruction	7,576,787	7,242,601	7,391,960	(149,359)
Supporting services:				
Pupil	434,419	578,131	629,877	(51,746)
Instructional staff	586,131	570,011	552,131	17,880
General administration	399,754	416,996	411,785	5,211
School administration	676,136	775,942	731,331	44,611
Business	357,302	412,510	401,299	11,211
Operation/maintenance	1,313,290	1,325,074	1,229,695	95,379
Pupil transportation	693,578	1,006,507	1,029,969	(23,462)
Other	18,000	12,075	9,455	2,620
Total supporting services	4,478,610	5,097,246	4,995,542	101,704
Community service activities	15,983	16,383	15,945	438
Total expenditures	12,071,380	12,356,230	12,403,447	(47,217)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	8,522	(60,004)	(349,705)	(289,701)
OTHER FINANCING SOURCES (USES):				
Proceeds from long term borrowing		250,900	250,900	
Proceeds from sale of assets		4,300	5,446	1,146
Operating transfers to other funds	(147,653)	(166,976)	(131,861)	35,115
Total other financing sources (uses)	(147,653)	88,224	124,485	36,261
NET CHANGE IN FUND BALANCE	<u>\$ (139,131)</u>	<u>\$ 28,220</u>	<u>(225,220)</u>	<u>\$ (253,440)</u>
FUND BALANCE:				
Beginning of year			1,479,503	
End of year			<u>\$1,254,283</u>	

ADDITIONAL INFORMATION

**FENNVILLE PUBLIC SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2006**

ASSETS	Special revenue	Permanent fund Athletics Contribution	Total nonmajor governmental funds
ASSETS:			
Cash	\$ 150,237	\$	\$ 150,237
Investments	5,184		5,184
Accounts receivable	4,324		4,324
Due from other governmental units	4,193		4,193
Due from other funds	65,388		65,388
Inventories	3,026		3,026
Restricted investments		50,000	50,000
TOTAL ASSETS	<u>\$ 232,352</u>	<u>\$ 50,000</u>	<u>\$ 282,352</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 3,379	\$	\$ 3,379
Deferred revenue	3,785		3,785
TOTAL LIABILITIES	<u>7,164</u>		<u>7,164</u>
FUND BALANCES:			
Reserved for inventories	3,026		3,026
Reserved for athletic contribution		50,000	50,000
Unreserved, undesignated	222,162		222,162
TOTAL FUND BALANCES	<u>225,188</u>	<u>50,000</u>	<u>275,188</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 232,352</u>	<u>\$ 50,000</u>	<u>\$ 282,352</u>

FENNVILLE PUBLIC SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2006

	Special revenue	Debt service Durant	Permanent fund Athletics contribution	Total nonmajor governmental funds
REVENUES:				
Local sources:				
Investment earnings	\$ 3,989	\$	\$ 1,369	\$ 5,358
Food sales and athletic admissions	211,428			211,428
Other	6,570			6,570
Total local sources	221,987		1,369	223,356
State sources	33,585	95,945		129,530
Federal sources	417,300			417,300
Total revenues	672,872	95,945	1,369	770,186
EXPENDITURES:				
Current:				
Food service activities	564,469			564,469
Athletic activities	188,900		1,369	190,269
Debt service:				
Principal retirement		66,304		66,304
Interest on bonded debt		29,641		29,641
Total expenditures	753,369	95,945	1,369	850,683
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(80,497)			(80,497)
OTHER FINANCING SOURCES:				
Operating transfers from other funds	131,861			131,861
NET CHANGE IN FUND BALANCES	51,364			51,364
FUND BALANCES:				
Beginning of year	173,824		50,000	223,824
End of year	\$ 225,188	\$	\$ 50,000	\$ 275,188

**FENNVILLE PUBLIC SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006**

	Food service fund	Athletic fund	Totals
ASSETS			
Cash	\$ 149,469	\$ 768	\$ 150,237
Investments		5,184	5,184
Accounts receivable	4,324		4,324
Due from other governmental units	4,193		4,193
Due from other funds	65,388		65,388
Inventories	3,026		3,026
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	\$ 226,400	\$ 5,952	\$ 232,352
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3,379	\$	\$ 3,379
Deferred revenue	3,785		3,785
	<hr/>	<hr/>	<hr/>
Total liabilities	7,164		7,164
	<hr/>	<hr/>	<hr/>
Fund balances:			
Reserved for inventories	3,026		3,026
Undesignated	216,210	5,952	222,162
	<hr/>	<hr/>	<hr/>
Total fund balances	219,236	5,952	225,188
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCES	\$ 226,400	\$ 5,952	\$ 232,352
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**FENNVILLE PUBLIC SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006**

	Food service fund	Athletic fund	Totals
REVENUES:			
Sales	\$ 155,836	\$	\$ 155,836
Athletics		55,592	55,592
State aid	33,585		33,585
Federal aid	417,300		417,300
Interest income	3,577	412	3,989
Other	5,201	1,369	6,570
	<hr/>	<hr/>	<hr/>
Total revenues	615,499	57,373	672,872
	<hr/>	<hr/>	<hr/>
EXPENDITURES:			
Salaries and wages	173,817	98,264	272,081
Employee benefits	62,305	23,596	85,901
Donated commodities	29,269		29,269
Purchased services	9,090	34,997	44,087
Materials and supplies	28,938	26,087	55,025
Food costs	237,811		237,811
Bad debts	63		63
Capital outlay	23,176	3,906	27,082
Miscellaneous		2,050	2,050
	<hr/>	<hr/>	<hr/>
Total expenditures	564,469	188,900	753,369
	<hr/>	<hr/>	<hr/>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	51,030	(131,527)	(80,497)
	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES:			
Operating transfers from other funds		131,861	131,861
	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCES	51,030	334	51,364
	<hr/>	<hr/>	<hr/>
FUND BALANCES:			
Beginning of year	168,206	5,618	173,824
	<hr/>	<hr/>	<hr/>
End of year	\$ 219,236	\$ 5,952	\$ 225,188
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**FENNVILLE PUBLIC SCHOOLS
DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2006**

	<u>Durant</u>
REVENUES:	
State sources	\$ 95,945
EXPENDITURES:	
Principal retirement	66,304
Interest on bonded debt	<u>29,641</u>
Total expenditures	<u>95,945</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	
FUND BALANCES, beginning of year	<u> </u>
FUND BALANCES, end of year	<u><u>\$ </u></u>

**FENNVILLE PUBLIC SCHOOLS
AGENCY FUNDS - STUDENT ACTIVITIES
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2006**

	Balance 07/01/05	Additions	Deductions	Balance 06/30/06
All School Play Fund	\$ 4,657	\$ 2,506	\$ 5,982	\$ 1,181
Alternative Education	348			348
Animal Science	36			36
Annual Fund - Yearbook	3,459	17,075	15,128	5,406
Art Department	147	40	22	165
Athletic Contributions		16,053	17,270	(1,217)
Auditorium	470			470
Band Club	17,635	20,196	21,516	16,315
Baseball Fundraiser	(556)	1,742	200	986
Bo Mason Memorial Fund	964	595	595	964
Boys Basketball Fundraiser	775	9,068	6,842	3,001
Camp Blackhawk Fundraisers	394	849	849	394
Cheerleaders	(976)	6,271	6,671	(1,376)
Childrens Theater	2,000			2,000
Class of:				
1997	157			157
1999	1,428			1,428
2002		916		916
2003	987			987
2004	1,673			1,673
2005	(933)	2,000	1,303	(236)
2006	8,134	38,968	42,530	4,572
2007	1,167	11,722	8,664	4,225
2008	162	1,198	62	1,298
2009		1,638	461	1,177
Community Partnership Institute	102			102
Conflict Managers	950	221	230	941
Cross Country Fundraiser	47	960	997	10
D.A.R.E	58			58
DI Fundraisers	(407)	407		
DI/OM Fundraisers	703	1,084	1,518	269
Ed Foundation Mini-Grants	2,037	11,823	8,798	5,062
Eighth Grade Fund	(1,224)	26,569	26,871	(1,526)
Elementary Art Department	1,000			1,000

**FENNVILLE PUBLIC SCHOOLS
AGENCY FUNDS - STUDENT ACTIVITIES
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2006**

	Balance 07/01/05	Additions	Deductions	Balance 06/30/06
Elementary Library Fund	2,461	9,397	8,816	3,042
Elementary Office Fund (Lower)	\$ (294)	\$ 2,709	\$ 2,301	\$ 114
Elementary Office Fund (Upper)		712	687	25
Elementary Playground		3,716	37	3,679
Elementary Pop Fund	186	4,367	3,303	1,250
Elementary Student Council (Lower)	1,682	15,663	10,112	7,233
Elementary Student Council (Upper)	14,232	409	5,465	9,176
Elementary Yearbook	3,827	1,410	1,491	3,746
Environmental Club	1,181			1,181
Fennville Chamber Scholarship		600		600
Fennville Foundation	(1,025)			(1,025)
Football Fundraisers	282	1,140	1,651	(229)
Fund Raisers	156	102	102	156
Future Educators of America	48		25	23
Future Farmers of America	1,067			1,067
Girls Basketball Fundraisers	525	3,674	3,650	549
Hero Team	443			443
High School Library Fund	322	1,598	1,109	811
High School Picture Fund	2,063			2,063
High School Student Council	1,304	1,747	1,638	1,413
High School Technology Fund	1,260			1,260
Hunt Memorial Fund	625			625
Journalism Class	131			131
Middle School Cheerleading		1,141	536	605
Middle School Art Club	865		88	777
Middle School Fund	626	1,753	2,153	226
Middle School Library	1,082	2,975	3,080	977
Middle School Pop Fund	588	2,007	1,974	621
Middle School Student Council	4,946	8,415	8,159	5,202
Migrant Pop Fund	54		54	
Miscellaneous contingency	14,236	1,254	3,664	11,826
Multicultural Club	363	54	100	317
Music Revolving Fund	29			29
National Honor Society	43		39	4

**FENNVILLE PUBLIC SCHOOLS
AGENCY FUNDS - STUDENT ACTIVITIES
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2006**

	Balance 07/01/05	Additions	Deductions	Balance 06/30/06
Parent Teachers Organization	8,283	35,841	33,349	10,775
Pearl Project Fund	1,491	1,325	866	1,950
Pearl Student Council	\$ 1,804	\$	\$ 196	\$ 1,608
Perrigo Scholarship	1,120			1,120
Pre-School Co-Op	7,512	3,256	5,362	5,406
Professional Library	3			3
Project Graduation	2,945	17,149	19,333	761
Quiz Bowl	55	43		98
RIF Program	753	467	281	939
Rocket Football	1,046	5,335	4,448	1,933
SADD	239			239
Saugatuck/Douglas Garden Club	5,500	2,500	3,000	5,000
Seventh Grade Fund	1,635	9,400	10,094	941
Sixth Grade Fund	4,313	7,911	9,024	3,200
Ski Club	478	3,210	2,385	1,303
Softball Fundraiser	(701)	480		(221)
Sorensen Memorial Staff Development.	2,560			2,560
Spanish Club	978	1,150	1,641	487
Students Assisting Students Association		152	5	147
Student Coke Fund	(52)	8,504	8,033	419
Student Relief Fund	1,501	3,178	2,595	2,084
Summer Recreation	(86)	4,635	4,144	405
Superintendent Office Fund	1,080		890	190
Teachers Coke Fund (HS)	1,672	713	1,010	1,375
Third Grade Fundraiser	265	516	762	19
Track Fundraiser	470	161	227	404
VFW Scholarship	500	1,000	1,000	500
VI Monique Memorial	661			661
Volleyball Fundraiser	685	1,589	1,286	988
Wrestling Fundraising	176	494	504	166
Youth Committee	518			518
Youth League Summer Ball	(13)	8,115	10,977	(2,875)
	<u>\$ 146,093</u>	<u>\$ 353,868</u>	<u>\$ 348,155</u>	<u>\$ 151,806</u>

FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS-1998 DEBT
1998 SCHOOL IMPROVEMENT BONDS (DURANT)
YEAR ENDED JUNE 30, 2006

<u>Year ending June 30,</u>	<u>Interest rate</u>	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total</u>
2007	4.76%	\$ 14,678	\$ 5,650	\$ 20,328
2008		15,381	4,951	20,332
2009		16,113	4,219	20,332
2010		16,880	3,452	20,332
2011		17,684	2,648	20,332
2012		18,525	1,806	20,331
2013		19,405	924	20,329
		<u>\$ 118,666</u>	<u>\$ 23,650</u>	<u>\$ 142,316</u>

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorized the payment of the State Aid Payments directly to the Authority's Depository.

**FENNVILLE PUBLIC SCHOOLS
BONDED DEBT
YEAR ENDED JUNE 30, 2006**

\$25,760,000 Bonds issued August 1, 2004

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 305,000	\$ 591,841	\$ 591,841	2007	\$ 1,488,682
385,000	587,266	587,266	2008	1,559,532
475,000	581,009	581,009	2009	1,637,018
505,000	572,697	572,697	2010	1,650,394
530,000	563,544	563,544	2011	1,657,088
555,000	553,606	553,606	2012	1,662,212
585,000	543,200	543,200	2013	1,671,400
615,000	531,500	531,500	2014	1,678,000
645,000	519,200	519,200	2015	1,683,400
680,000	506,300	506,300	2016	1,692,600
715,000	492,275	492,275	2017	1,699,550
750,000	477,081	477,081	2018	1,704,162
790,000	460,956	460,956	2019	1,711,912
830,000	443,675	443,675	2020	1,717,350
870,000	425,000	425,000	2021	1,720,000
915,000	403,250	403,250	2022	1,721,500
965,000	380,375	380,375	2023	1,725,750
1,015,000	356,250	356,250	2024	1,727,500
1,065,000	330,875	330,875	2025	1,726,750
1,120,000	304,250	304,250	2026	1,728,500
1,175,000	276,250	276,250	2027	1,727,500
1,235,000	246,875	246,875	2028	1,728,750
1,295,000	216,000	216,000	2029	1,727,000
1,355,000	183,625	183,625	2030	1,722,250
1,415,000	149,750	149,750	2031	1,714,500
1,475,000	114,375	114,375	2032	1,703,750
1,535,000	77,500	77,500	2033	1,690,000
1,565,000	39,125	39,125	2034	1,643,250
<u>\$ 25,365,000</u>	<u>\$ 10,927,650</u>	<u>\$ 10,927,650</u>		<u>\$ 47,220,300</u>

**FENNVILLE PUBLIC SCHOOLS
BONDED DEBT
YEAR ENDED JUNE 30, 2006**

\$25,760,000 Bonds issued August 1, 2004 (Concluded)

The above bonds were authorized at an election June 14, 2004 and have interest rates from 3.00% to 5.00%. The bonds were issued for the purpose of erecting, furnishing and equipping a new elementary school; erecting, furnishing and equipping an addition or additions to, and partially remodeling and re-equipping the middle school and high school buildings; partially remodeling a portion of the existing elementary building to use for adult/alternative education and administrative office purposes; erecting, furnishing and equipping a community athletic center; acquiring and installing education technology; constructing and equipping improvements to the outdoor athletic facilities, including a running track, soccer field and playground; and developing and improving sites.

**FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF CAPITALIZED LEASES
YEAR ENDED JUNE 30, 2006**

\$272,565 capitalized leases dated June 16, 2002

Principal due July, 1	Interest due July, 1	June 30,	Amount
<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>\$ 56,950</u>	<u>\$ 2,671</u>		<u>\$ 59,621</u>

**FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF BUS LOAN
YEAR ENDED JUNE 30, 2006**

\$250,900 for purchase of 5 buses, loan dated October 13, 2005

Principal due October, 13	Interest due October, 13	June 30,	Amount
\$ 46,240	\$ 10,262	2007	\$ 56,502
48,131	8,371	2008	56,502
50,099	6,402	2009	56,501
52,149	4,353	2010	56,502
54,281	2,220	2011	56,501
<u>\$ 250,900</u>	<u>\$ 31,608</u>		<u>\$ 282,508</u>

FENNVILLE PUBLIC SCHOOLS
ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133
YEAR ENDED JUNE 30, 2006

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Lamonte T. Lator
Bruce J. Dunn
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education
Fennville Public Schools
Fennville, Michigan

August 1, 2006

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fennville Public Schools as of and for the year ended June 30, 2006, which collectively comprise Fennville Public Schools' basic financial statements and have issued our report thereon dated August 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fennville Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Fennville Public Schools' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs 06-1.

To the Board of Education
Fennville Public Schools

August 1, 2006

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, we believe the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fennville Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responded as items 06-1..

We noted certain matters that we reported to management of Fennville Public Schools in a separate letter dated August 1, 2006.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Mamer, Costeniser & Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
Fennville Public Schools
Fennville, Michigan

August 1, 2006

Compliance

We have audited the compliance of Fennville Public Schools with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. Fennville Public Schools' major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Fennville Public Schools' management. Our responsibility is to express an opinion on Fennville Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Fennville Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Fennville Public Schools' compliance with those requirements.

In our opinion, Fennville Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Fennville Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Fennville Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fennville Public Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 1, 2006. Our audit was performed for the purpose of forming opinions on the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mamey, Costenisan & Ellis, P.C.

Certified Public Accountants

FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Approved grant award amount	Accrued (deferred) revenue July 1, 2005	Prior year adjustments	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue June 30, 2006
<u>U.S. Department of Agriculture:</u>									
Passed through Michigan Department of Education:									
Child Nutrition Cluster:									
National School Lunch Program - Breakfast	10.553	061970	\$ 54,848	\$	\$	\$	\$ 54,848	\$ 54,848	\$
National School Lunch Program - Breakfast		051970	5,319				5,319	5,319	
			60,167				60,167	60,167	
National School Lunch Program - Section 4	10.555	061950	37,438				37,438	37,438	
National School Lunch Program - Section 4		051950	4,681				4,681	4,681	
National School Lunch Program - Section 11		061960	240,211				240,211	240,211	
National School Lunch Program - Section 11		051960	30,003				30,003	30,003	
National School Lunch Snacks		061980	454				454	454	
National School Lunch Snacks		051980	68				68	68	
			312,855				312,855	312,855	
Summer Food Service Program	10.559	2005	19,034	4,025		4,025	15,009	19,034	
Total Child Nutrition Cluster			392,056	4,025		4,025	388,031	392,056	
Food distribution:									
Entitlement Commodities	10.550		26,243				26,243	26,243	
Bonus Commodities			3,026				3,026	3,026	
			29,269				29,269	29,269	
Total U.S. Department of Agriculture			421,325	4,025		4,025	417,300	421,325	

The accompanying notes are an integral part of this schedule.

FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Approved grant award amount	Accrued (deferred) revenue July 1, 2005	Prior year adjustments	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue June 30, 2006
<u>U.S. Department of Education:</u>									
Passed through Michigan Department of Education:									
E.C.I.A. Title I	84.010	061530-0506	\$ 279,395	\$	\$	\$	\$ 279,395	\$ 241,831	\$ 37,564
E.C.I.A. Title I		051530-0405	262,180	49,508		262,180		49,508	
E.S.E.A. Title I 2% School Improvement		051550-0506	45,000				30,975	20,498	10,477
E.S.E.A. Title I 2% School Improvement		041550-0405	42,242	19,466		25,523	16,719	36,185	
			628,817	68,974		287,703	327,089	348,022	48,041
Migrant Summer Formula	84.011	061830-2006	123,795				2,245		2,245
Migrant Summer Formula		051830-2005	132,197	3,866	22,530	3,866	105,801	132,197	
Migrant Regular Formula		061890-0506	132,348				132,348	123,647	8,701
Migrant Regular Formula		051890-0405	179,748	20,903		179,748		20,903	
			568,088	24,769	22,530	183,614	240,394	276,747	10,946
Title V LEA Allocation	84.298	060250-0506	6,563				4,846	6,563	(1,717)
Title V LEA Allocation		050250-0506	1,766				1,766	1,766	
			8,329				6,612	8,329	(1,717)
Technical Literacy Challenge Fund	84.318	064290-0506	5,212				4,693	4,693	
Comp Schools Reform Demonstration	84.332	051870-0506	49,000				41,899	48,598	(6,699)
Comp Schools Reform Demonstration		041870-0506	39,000				39,000	39,000	
Comp Schools Reform Demonstration		041870-0405	88,521	5,635		76,875	11,646	17,281	
			176,521	5,635		76,875	92,545	104,879	(6,699)

The accompanying notes are an integral part of this schedule.

FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Approved grant award amount	Accrued (deferred) revenue July 1, 2005	Prior year adjustments	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue June 30, 2006
<u>U.S. Department of Education (Concluded):</u>									
Passed through Michigan Department of Education (Concluded):									
English Language Acquisition	84.365	060580-0506	\$ 53,421	\$	\$	\$	\$ 53,421	\$ 43,045	\$ 10,376
English Language Acquisition		050580-0405	17,637		17,637			17,637	
			71,058		17,637		53,421	60,682	10,376
Title IIA, Improving Teacher Quality	84.367	060520-0506	82,457				71,212	79,660	(8,448)
Title IIA, Improving Teacher Quality		050520-0405	82,224	3,843		64,646	17,578	21,421	
			164,681	3,843		64,646	88,790	101,081	(8,448)
Total passed through Michigan Department of Education			1,622,706	103,221	40,167	612,838	813,544	904,433	52,499
Passed through Allegan County Intermediate School District:									
Pre School Incentive	84.173	060460/1	10,853				10,853	10,853	
Passed through Ottawa Area Intermediate School District:									
Drug Free Schools	84.186A	062860-0506	5,969				5,969	5,969	
Total U.S. Department of Education			1,639,528	103,221	40,167	612,838	830,366	921,255	52,499
TOTAL FEDERAL AWARDS			\$2,060,853	\$ 107,246	\$ 40,167	\$ 616,863	\$ 1,247,666	\$ 1,342,580	\$ 52,499

The accompanying notes are an integral part of this schedule.

**FENNVILLE PUBLIC SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of Fennville Public Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. Child Nutrition Cluster, CFDA #10.553, #10.555 and #10.559 were audited as major programs representing 31% of expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the Grant Section Auditors' Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$ 870,533
Other nonmajor governmental funds	417,300
	<u>1,287,833</u>
Prior year adjustments	<u>(40,167)</u>
Current year expenditures	<u><u>\$ 1,247,666</u></u>

6. Prior year adjustments are a result of expenditures incurred not included in the June 30, 2005 schedule of federal awards.

**FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

- Material weakness(es) identified: _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? X Yes _____

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported with Sections 510(a) of Circular A-133?

_____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553	Child Nutrition Cluster
10.555	
10.559	

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

**FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006**

Section II - Findings - Financial Statement Audit

Finding - 06-1

Month-end adjustments of bank accounts for the year ended June 30, 2006

Condition

During the year, bank reconciliations are performed, however, necessary adjustments to the general ledger to balance the bank reconciliations were not made to the general ledger for certain accounts.

Recommendation

Monthly bank reconciliations should be reviewed by an appropriate individual every month. In addition, the reconciled balance should be compared to the general ledger to ensure all necessary adjustments to the general ledger are made in a timely manner. This will improve the accuracy of interim reporting.

Section III - Federal Award Findings and Questioned Costs

None

**FENNVILLE PUBLIC SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2005**

Finding - 05-1

Month-end adjustments of bank accounts for the year ended June 30, 2005

Condition

During the year, bank reconciliations are performed, however, necessary adjustments to the general ledger to balance the bank reconciliations were not made to the general ledger for certain accounts.

Recommendation

Monthly bank reconciliations should be reviewed by an appropriate individual every month. In addition, the reconciled bank balance should be compared to the general ledger to ensure all necessary adjustments to the general ledger are made in a timely manner. This will improve the accuracy of interim reporting.



FENNVILLE PUBLIC SCHOOLS

"educational excellence, community atmosphere, global vision"

FIVE MEMORIAL DRIVE
FENNVILLE, MICHIGAN 49408

NCA

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CORRECTIVE ACTION PLAN

Finding 06-1

We have established procedures to review bank reconciliations monthly. This review includes comparing the reconciled balance to the appropriate general ledger account.

We believe these procedures adequately correct this finding.

Deborah J. McMullen, CFO
Signature

Director of Finance
Title



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To the Board of Education
Fennville Public Schools
Fennville, Michigan

August 1, 2006

In planning and performing our audit of the financial statements of Fennville Public Schools for the year ended June 30, 2006, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated August 1, 2006, on the financial statements of Fennville Public Schools.

Prior Year Comments-Status

Athletic Ticket Sales

In prior year, we recommended the athletic department implement a ticket system for the sale of athletic event attendance. We are pleased to announce the athletic department implemented such a system.

New Rules for 403(B) Plans

Final regulations have still not been finalized.

New Grace Period for Cafeteria Plans

Informational purpose only.

Bonds

The construction process is still ongoing. The District should keep in mind that all bonds issued after May 1, 1994, a separate interim audit must be completed for each individual series of a bond authorization prior to the issuance of the next series. This interim audit must be completed within 120 days after completion of all projects and filed immediately with the Department of Treasury. This requirement is pursuant to Section 1351a(2) of Act 451 of the Public Acts of 1976. The management of the District should contact us with information as to the completion of all capital projects meeting this requirement so we can perform our audit procedures in a timely manner.

Repeat Comments

Improve Monthly Closing Procedures

During the audit, we proposed more than 40 adjusting journal entries. Substantially all of the entries were to adjust the general ledger or to make accruals and other adjustments. We believe that a review and evaluation of transactions and formalized monthly closing procedures will expedite the month-end closing and improve interim reporting. A formalized month end procedures checklist should be implemented and reviewed monthly.

Recording of Cash

During the course of the audit we noted that not all bank savings and investment accounts had been reconciled to the general ledger. All bank accounts should be reconciled to the general ledger on a monthly basis. Bank checking accounts were reconciled during the year.

Current Year Comments

Budget Enforcement by the Michigan Department of Education

The Michigan Department of Education is changing their enforcement and monitoring of budget violations. They are currently focusing on total expenditures violations that exceed 1% of the total expenditures budget and total other financing uses that exceed 1% of the total other financing uses budget. The Department of Education will be issuing letters to school board presidents, the superintendent and the chief business official when they identify these types of violations.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board.
- Ending the fiscal year with a negative general fund balance.
- Adopting a budget that, when implemented, would put the district in a deficit.

The Department is also currently reviewing their interpretation of Section 17(2). This would be a situation where a district's actual revenues were less than budgeted revenues and, at the same time, depleted the district fund balance, beyond what was approved in total by the school board.

We recommend you continue to review your current budget amendments during the year. There will be situations where there continue to be budget violations as disclosed in footnote 2 subsection 3 of the financial statements. While there may be technical violations of the act we believe the district's current budget procedures should be monitored during the year to avoid budget violation letters from the Michigan Department of Education.

The District should review its budget in the areas of state revenue, instruction, support services pupil and support services pupil transportation. These were areas which had negative variances this year.

Cash Management - Federal Awards

The Michigan Department of Education has recently been notified that it, along with all other states, has misinterpreted the advance provision of the Cash Management Improvement Act (CMIA). The United States Department of Education started monitoring and auditing CMIA compliance and is notifying sub-recipients that advances are limited to three days cash needs. In other words, funds must be spent by the district within 72 hours of being drawn down from the USDE GAPS system. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs during fiscal year 2006/2007. Thirty-day cash advances may be permitted for new one-time federal grant programs at the discretion of program management.

We recommend the District request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation.

Capital Projects

During our audit, we performed procedures to comply with Section 1351(a) which outlines guidelines for expending bond proceeds. There were no findings in this area.

New Auditing Standards

Recently, 10 new auditing standards have been released and will become effective over the District's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the District beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the District could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a "material weakness" and added two new categories of deficiencies "significant deficiency" and "control deficiency". Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for the District. We will have to evaluate the District's ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exists.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

To the Board of Education
Fennville Public Schools
Fennville, Michigan

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August 1, 2006

This report is intended solely for the information and use of Fennville Public Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours

Memo, Costeniser & Ellis, P.C.



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

August 1, 2006

To the Board of Education
Fennville Public Schools
Fennville, Michigan

We have audited the financial statements of Fennville Public Schools for the year ended June 30, 2006, and have issued our report thereon dated August 1, 2006. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Fennville Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Fennville Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Fennville Public School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major programs for the purpose of expressing an opinion on Fennville Public School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Fennville Public School's compliance with those requirements.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Fennville Public Schools are described in Note 1 to the financial statements. No new accounting policies were adapted and the application of existing policies was not changed during 2006. We noted no transactions entered into by Fennville Public Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is the estimated liability for compensated absences and capital assets as determined by an independent appraisal company.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Fennville Public Schools' financial reporting process, that is, cause future financial statements to be materially misstated. In our judgment, several of the adjustments we proposed, whether recorded or unrecorded by the Fennville Public Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the Fennville Public Schools' financial reporting process. A total of approximately 40 journal entries were recorded during the audit.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Fennville Public Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the board of education and management of Fennville Public Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Manner, Costenizer & Ellis, P.C.